
Finance Committee

HB 1494

Brief Description: Concerning the property tax exemptions for new and rehabilitated multiple-unit dwellings in urban centers.

Sponsors: Representatives Ramel, Donaghy, Nance, Walen, Duerr, Reed, Parshley and Salahuddin.

<p style="text-align: center;">Brief Summary of Bill</p> <ul style="list-style-type: none">• Makes various changes to the multifamily property tax exemption program.
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Hearing Date: 2/20/25

Staff: Kristina King (786-7190).

Background:

Property Tax.

All real and personal property is subject to a tax each year based on the highest and best use, unless a specific exemption is provided by law. The county assessor determines assessed value for each property and calculates property taxes. The aggregate of all regular tax levies upon real and personal property by the state and all taxing districts may not exceed 1 percent of the true and fair value of the property, or \$10 per \$1,000 of assessed valuation. In addition, the aggregate regular levies of junior taxing districts and senior taxing districts, other than the state, may not exceed \$5.90 per \$1,000 of assessed valuation.

Growth Management Act.

The Growth Management Act (GMA) is the comprehensive land use planning framework for counties and cities in Washington. The GMA establishes land use designation and

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environmental protection requirements for all Washington counties and cities. The GMA also establishes a significantly wider array of planning duties for 28 counties, and the cities within those counties, that are obligated to satisfy all planning requirements of the GMA. These jurisdictions are said to be fully planning under the GMA.

GMA Displacement Risk.

Under the GMA, it is mandatory that the housing element of a county's comprehensive plan:

- identifies local policies and regulations that result in racially disparate impacts, displacement, and exclusion in housing, including:
 - zoning that may have a discriminatory effect;
 - disinvestment; and
 - infrastructure availability;
- identifies and implements policies and regulations to address and begin to undo racially disparate impacts, displacement, and exclusion in housing caused by local policies, plans, and actions;
- identifies areas that may be at higher risk of displacement from market forces that occur with changes to zoning development regulations and capital investments; and
- establishes anti-displacement policies, with consideration given to the preservation of historical and cultural communities as well as investments in low, very low, extremely low, and moderate-income housing; equitable development initiatives; inclusionary zoning; community planning requirements; tenant protections; land disposition policies; and consideration of land that may be used for affordable housing.

Multifamily Property Tax Exemption.

The multifamily property tax exemption (MFTE) exempts real property associated with the construction, conversion, or rehabilitation of qualified, multiple-unit residential structures. Property owners must apply for the MFTE to the designated city or county. The city or county may include additional eligibility requirements for the tax exemptions. Authorized MFTEs include:

- an 8-year exemption;
- a 12-year exemption if the applicant commits to renting or selling at least 20 percent of multifamily housing units as affordable housing to low- and moderate-income households;
- a 20-year exemption for homeownership if at least 25 percent of the units are sold to a qualified nonprofit or local government partner for permanent affordable homeownership; and
- a 20-year exemption for rental housing if at least 20 percent of the units are rented to low-income households for a term of 99 years, and the property is located within one mile of high-capacity transit, in a city that has implemented a mandatory inclusionary zoning requirement and has a population of not more than 65,000.

To qualify for an exemption, the housing project must be located in a residential targeted area (RTA) designated by a qualifying county or city. Cities and counties must meet certain criteria to designate an RTA and offer the MFTE. Cities must either:

- have a population of at least 15,000;

- be the largest city in a county fully planning under the GMA if there is no city with a population of at least 15,000; or
- have a population of at least 5,000 and be located in a county subject to buildable lands requirements.

Any city not meeting the criteria above may offer the 12-year exemption and the 20-year exemption for homeownership in areas with a minimum density requirement of 15 housing units per gross acre.

Counties offering the MFTE must have an unincorporated population of at least 170,000. The RTA must be located in an unincorporated area within the urban growth area, and the area also must be:

- in a rural county served by a sewer system and designated by a county prior to January 1, 2013; or
- in a county that includes a campus of an institution of higher education where at least 1,200 students live on campus during the academic year; and
- until July 15, 2024, in a county seeking to promote transit supportive densities and efficient land use in an area located within a designated UGA and within 0.25 miles of a corridor where bus service is scheduled at least every 30 minutes for no less than 10 hours per weekday.

Five counties in the state qualify under these requirements. They are Clark, Kitsap, Snohomish, King, and Pierce counties.

Before designating an RTA, a county must evaluate the potential risks of displacement of residents currently in the area. RTAs can only be designated if the evaluation finds minimal displacement risk. If the risk is not minimal, the city or county must address the risk through locally adopted mitigation measures.

A property that qualified for and used an 8- or 12-year exemption and is within 18 months of expiration may apply to extend the exemption for an additional 12 years if it meets minimum locally adopted requirements for affordability. To qualify, an applicant must be approved by the city or county and commit to rent or sell at least 20 percent of the housing units to low-income households.

Cities and counties with MFTE programs are required to report annually to the Department of Commerce (Commerce) the following information:

- the number of tax exemption certificates granted;
- the total number and type of units produced or to be produced;
- the number, size, and type of units produced or to be produced, meeting affordable housing requirements;
- the actual development cost of each unit produced;
- the total monthly rent or total sale amount of each unit produced;
- the annual household income and household size for each of the affordable units receiving

- a tax exemption; and
- the value of the tax exemption for each project receiving a tax exemption, and the total value of tax exemptions granted.

The exemption can be canceled prior to the end of the exemption period if:

- the property does not meet affordability requirements;
- the multifamily component of the development is converted to another use; or
- other conditions of the exemption are no longer satisfied.

The cancellation occurs due to withdrawal or noncompliance. In cases of withdrawal, the owner must provide at least 60 days' notice to the city or county that it will end the MFTE contract, and when the tax exemption is canceled, there are no additional penalties required, and the exemption is removed. In cases of noncompliance, if the city or county finds the owner has violated the MFTE contract, the tax penalty is equal to the exempted tax prorated to the established date of noncompliance, plus a 20 percent penalty and the interest on delinquent property tax payments. As with any other unpaid property taxes, this can also be considered a lien on the subject property. The exempted property value is also retroactively added back to the property tax rolls, consistent with the process for omitted property.

At the conclusion of the exemption period the value of the new housing, construction, conversion, or rehabilitation improvements must be considered as new construction for property tax purposes as though the property was not exempt under the MFTE program. No new MFTE applications may be approved on or after January 1, 2032, or any extensions of existing tax exemptions on or after January 1, 2046.

Summary of Bill:

New MFTE Authority.

Cities.

Any city with a population of at least 15,000 and a mandatory inclusionary zoning requirement is authorized to offer the 20-year rental exemption in areas within one mile of high-capacity transit. The high-capacity transit must have at least a 15-minute scheduled frequency.

Counties.

Any county with an unincorporated population of at least 170,000 is authorized to offer the 12-year exemption and the 20-year homeownership exemption in a UGA and the area also must be:

- in a county that includes a campus of an institution of higher education where at least 1,200 students live on campus during the academic year; or
- in a county seeking to promote transit-supportive densities and efficient land use in an area located within a designated UGA and within 0.5 miles of a corridor where bus service is scheduled at least ten times per day in each direction in a transit development plan. This applies to Clark, Kitsap, and Snohomish counties. Existing requirements for Pierce and King counties are maintained.

Programmatic Changes.

A household may continue to qualify as low-income or moderate-income for the purposes of the MFTE unless the household's income exceeds 150 percent of the established income limit.

A deed restriction or covenant that ensures the affordability and other MFTE requirements are met is required for owner-occupied projects that receive a 12-year exemption.

Cities offering the MFTE are required to ensure any new RTA meets the anti-displacement requirements under the GMA.

Penalties for Noncompliance.

Sliding Scale Penalty.

Cities and counties are authorized to impose a sliding scale penalty, rather than cancelling the exemption if an owner or operator fails to:

- offer the number of units at rents as committed to in the approved MFTE application; or
- properly screen tenants for income-restricted units.

The penalty may not exceed the amount calculated by subtracting the amount of rent that would have been collected, had the owner or operator complied with their commitment, from the amount of rent collected by the owner or operator for the income-restricted units, with consideration of the severity of the noncompliance. If the owner or operator is subsequently found to be in substantial noncompliance with the program requirements, the exemption certificate must be canceled. This provides a city or county with the same authority for sliding scale penalties that Commerce has.

Sliding Fee Penalty.

A city or county is authorized to implement a sliding fee penalty and assign the highest penalty to an owner or owners who cause a project to be out of compliance with the jurisdiction's MFTE requirements and a lesser penalty or no penalty to other owners. A city or county is authorized to cancel the exemption for noncompliant units only.

Reporting and Notifications.

Before the designation of an RTA, cities and counties are required to notify all taxing districts in the proposed RTA of the MFTE RTA public hearing. Once the MFTE program is in place, before changing any adopted standards, guidelines, requirements, or conditions of the MFTE, the city or county must notify all taxing districts located in the RTA of the proposed changes.

Cities and counties offering the MFTE are required to submit, to the county assessor, a copy of the conditional certificate of tax exemption for any approved exemptions under the MFTE.

An additional analysis is added to annual reporting requirements for cities and counties that includes the following, regarding the affordable units produced or expected to be produced by MFTE recipients:

- unit size;
- number of bedrooms;
- income requirements; and
- how the units will support the existing and projected housing needs identified in a city or county's comprehensive plan under the GMA.

Clarifications and Technical Changes.

- The definition of affordable housing is modified to be consistent with the definition in the GMA. Affordable housing means residential housing with monthly costs, including utilities other than telephone, that do not exceed 30 percent of the monthly income of a low-income or moderate-income household.
- The stipulation that units may be sold or rented to either low-income or moderate-income households, or both, is clarified.
- The definition of "rural county" and related rural county option requirements are removed due to the expiration of the rural county option in 2020.
- Language with no practical effect regarding the requirement for cities with a population over 20,000 to meet minimum density requirements for the 12-year exemption and the 20-year homeownership exemption is removed.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.